

statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 7 to 27.

#### Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy 1.1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (M/FMA). This responsibility includes:

3. designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

- selecting and applying appropriate accounting policies

- making accounting estimates that are reasonable in the circumstances.

#### Responsibility of the Auditor-General

4. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 (3) of the M/FMA, my responsibility is to express an opinion on these financial statements based on my audit.

5. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

6. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

7. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

9. The municipality's policy is to prepare financial statements on the entity specific basis of accounting as set out in accounting policy note 1.

Basis for qualified opinion

#### **10. Receivables (debtors)**

Consumer debtors amounting to R1,2 million were outstanding as at 30 June 2007. However, there was no provision for bad debts raised during the year. In addition, the balance of R1,3 million as per the age analysis provided did not agree to the balance of R1,8 million as per the individual debtors listing, resulting in an unexplained difference of R542 991.

#### **11. Salaries and allowances**

It was noted that the amount of R11,5 million for salaries and allowances as per the financial statements did not agree to the amount of R11 million as per the salary reconciliation, resulting in an overstatement of salaries amounting to R523 788.

#### **12. Fixed assets C.2.7**

I was unable to verify the completeness, existence and valuation of the opening balance for fixed assets of R11,2 million as reflected in the financial statements due to the following:

- The opening balances of fixed assets were derived from the revaluations listing which was based on a revaluation that was conducted in-house.
- The asset listing was incomplete.
- Certain assets in the assets listing did not have unique asset numbers to facilitate identification.
- A contract register could not be provided for audit purposes

#### **Qualified opinion**

13. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements of Indaka Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1.1 to the financial statements and in the manner required by the MFMA.

#### **OTHER MATTERS**

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

#### **14. Non-compliance with applicable legislation**

##### **14.1 Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

###### **14.1.1 Budget**

In terms of section 15 of the MFMA a municipality may only incur expenditure in terms of the approved budget and within the limits of the amounts appropriated for the different votes in an approved budget. However, it was noted that the budget was exceeded by R4,3 million resulting in unauthorised expenditure as defined in section 1 of the MFMA.

###### **14.1.2 Fraud prevention plan**

Section 62 of the MFMA requires the accounting officer to ensure that the municipality has and maintains effective, efficient and transparent systems of financial risk management. However, there was no fraud prevention plan in place to prevent and detect fraud and to mitigate specific fraud risks during the year under review.

##### **14.2 Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997)**

###### **14.2.1 Overtime management**

In terms of section 10 of the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997) an employer may not require or permit an employee to, *inter alia*, work overtime except in accordance with an agreement and to work more than 10 hours overtime a week. However, due to the lack of a documented policy regarding overtime, some employees worked more than 40 hours of overtime per month and overtime paid constituted more than 30 percent of their monthly salaries.

#### **15. Matters of governance**

##### **15.1 Internal audit**

Section 165 of the MFMA requires the municipality to establish an internal audit function. However, the following short comings with respect to the internal audit function were noted:

- There was no approved internal audit charter in place
- An audit approach and methodology has not been adopted
- No internal audit quality reviews were performed during the year

##### **15.2 Audit Committee**

In terms of section 166 (2) of the MFMA, each municipality must have an audit committee. However, there was no effective audit committee in place for the year under review.

#### **16. Material corrections made to the financial statements submitted for audit**

The financial statements, approved by the accounting officer and submitted for audit on 31 August 2007, have been significantly revised in respect of the following material misstatements identified during the audit:

- Provision for leave was not adjusted from the prior year. This resulted in an understatement of the provision and accumulated deficit by R714 612.
- The R293 Uthukela debtor was overstated because it was long outstanding due to incorrect calculation of amounts from previous years. Therefore the General Reserve – Free Basic Services and the R293 Uthukela debtor accounts were adjusted by R1 476 707.

- The Sundry debtors were overstated because it was long outstanding, also due to incorrect calculation of amounts from previous years. Therefore the General Reserve – Free Basic Services and Sundry debtors accounts were adjusted by R1 251 966.
- The Consumer debtors were overstated because it was long outstanding. Therefore the Provision for bad debts and Consumer debtors accounts were adjusted by R1 691 062.
- The vote for Salaries, wages and allowances was overstated by R299 830 and the vote for General Expenses was understated by the same amount as a result of a misallocation of expenditure to the Salaries, wages and allowances vote. However, the votes have been corrected in this regard.

#### 17. Internal control

Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Fixed assets			<input type="checkbox"/>		<input type="checkbox"/>
Receivables			<input type="checkbox"/>		<input type="checkbox"/>
Salaries			<input type="checkbox"/>		
Non-compliance with applicable laws and regulations		<input type="checkbox"/>			<input type="checkbox"/>
Matters of governance	<input type="checkbox"/>	<input type="checkbox"/>			

#### 18. Unaudited supplementary schedules

The supplementary information set out on page 28 does not form part of the financial statements and is presented as additional information. I have not audited this schedules and, accordingly, I do not express an opinion on it.

#### OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

19. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

#### Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 646 of 25 May 2007* and section 45 of the MSA.

22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

#### Audit findings (performance information)

#### 24. Non-compliance with regulatory requirements

##### **No reporting of performance information**

The annual report of the municipality did not include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA

##### **Existence and functioning of a performance audit committee**

The municipality did not appoint and budget for a performance audit committee in terms of section 166 of the MFMA.

##### **Internal auditing of performance measurements**

The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes as required in terms of section 45 of the MSA.

#### **APPRECIATION**

The assistance rendered by the staff of the Indaka Municipality during the audit is sincerely appreciated.

30 November 2007  
Pietmaritzburg



A U D I T O R - G E N E R A L